

**REPORT FOR:**       **Acquisition Advisory Panel  
Executive Office of the President  
Office of Management and Budget  
Washington, D.C. 20503**

**SUBJECT:**           **GSA Schedules**

**PRESENTED BY:**   **Richard E. Bloomfield  
President  
Ceco Sales Corporation  
708 North Main Street  
Fort Worth, Texas 76106**

**I wish to thank Ms. Laura Auletta, Executive Director of the Acquisition Advisory Panel, for inviting me to address the members of this panel today.**

**Also, I want to express my appreciation to Ms. Marcia Madsen, Acquisition Panel Chair, and the other members for their participation in this project.**

**My name is Richard Eugene Bloomfield and I am the owner of Ceco Sales Corporation. My company is 34 years old and we are warehousing distributors of maintenance, repair, operations and environmental products.**

**Ceco Sales Corporation is Native American Owned, State of Texas “HUB”, MBE, SBA, HUBZone and SBA 8(a), SBA-DBE and ISO 9001:2000 Certified.**

**We are currently working to establish GSA Schedules for our products so that we may participate in Federal Contracting Opportunities.**

**Establishing GSA Schedules has been a very difficult goal to obtain but we are committed to this project. Ninety-five percent of our business is derived from commercial accounts with five percent resulting from sales to the Federal Government.**

**Our company has a services sector that manufactures kits for the telecommunications industry. Although there is a vast amount of kitting in the Federal Government, we are denied opportunity for kitting with the Federal Government because congress has set aside all of the activity for the National Institute for the severely handicapped known as (NISH).**

**Our first SBA-8(a)/GSA Contract came last year with the outstanding effort of two GSA employees located in this building. For the record, I want to thank Ms. Debbie Loftin, Contracting Specialist and Mr. Barney McCollum, Fire Protection Engineer with GSA, for their mentoring and support throughout our contract.**

**Rather than answer the bullet point questions offered in the guide lines and, since it is obvious we have failed to penetrate Federal Government procurement to any degree of success, I wish to address the improper application of GSA schedules and the resulting effect on Small, Minority and Women owned business.**

**To properly present the problem, I request that the panel indulge my movement from GSA Schedules, to their use in establishing State Multiple Award Schedules and then down to local level of cities and counties.**

**I acknowledge this panel's charge is to study acquisition on a Federal level but when elements of Federal Acquisition permit themselves to be used as tools to exclude Small, Minority and Women owned businesses, then those elements need to be examined. These issues are being discussed on the State level and I personally anticipate action by State Officials.**

**The original intent of the GSA Schedules was to efficiently provide the need for products required by the Federal Government in its day-to-day activity. This procurement tool was not created to provide big business a method to exclude competition in the Small, Minority and Woman owned communities.**

**With the credibility and support of the GSA Schedules, the State of Texas established a program called TXMAS meaning "Texas Multiple Award Schedule" program. However, prior to establishing this program, the State of Texas had to overcome a major hurdle. Texas public procurement law requires competitive bidding on contracts that either exceed or are anticipated to exceed \$25,000.00.**

**The State of Texas legislature added by Acts 1995, 74 Leg., ch.746 & 7, effective August 28, 1995, created a local government code for "Federal Supply Schedule Sources of Supply" as follows:**

#### **SUBCHAPTER G. PURCHASES FROM FEDERAL SCHEDULE SOURCES OF SUPPLY**

##### **& 271.103. Federal Supply Schedule Sources**

- (a.) A local government may purchase goods or services available under Federal supply schedules of the United States General Services Administration to the extent permitted by law.**

- (b.) A local government that purchases goods or services under this subchapter satisfies any state law requiring the local government to seek competitive bids for the purchase of goods or services.**

**The State of Texas legislature applied the same verbiage to “Cooperative Purchasing Program Participation”. The major difference between the establishment of “GSA Schedules” and “Cooperative Purchasing Agreements” is in the formation of the pricing structure.**

**Price is established in GSA Schedules by “negotiation” between a Federal Government employee and a contractor (vendor) while a “Cooperative Purchasing Agreement” results from advertised solicitations and competitive bids.**

**To avoid competitive bidding, the Texas State Legislature altered the Local Government Code as shown above.**

**A variation of the above would occur when a Cooperative Agreement used by another State Government i.e., Arizona (Western States Cooperative Agreement) would be construed as a “Local Government” based on “Texas Government Code, Title 7, Intergovernmental Relations, Chapter 791, Interlocal Cooperation Contracts, Sub Chapter B, General Interlocal Contracting Authority, Subchapter C, Specific Interlocal Contracting Authority.**

**This application of Texas law denies resident contractor/vendors from the State of Texas the opportunity to competitively bid on opportunities in their home state.**

**It is conceivable to believe that a contractor/vendor from Arizona operating under an Arizona approved cooperative might approach the Administrator of the Texas TXMAS Program, who would then issue a TXMAS Contract. The contractor/vendor in this case, might then approach, for example, the City of Fort Worth Procurement Department and receive a TYPA contract based on the Arizona and subsequent TXMAS Agreement. The contractor/vendor would then have “The Contract” for all the goods and/or services covered by the Co-Op Agreement originating in Arizona, thereby, denying any resident business in the State of Texas from its right to publicly compete for City of Fort Worth business.**

**The conclusions that I draw from the events and methodology of procurement may or may not represent a correct legal conclusion, but I am not a lawyer and I am not qualified to draw legal conclusion. On the other hand, I do own a dictionary published by Webster that defines “Local” and “Local Governments” as self-administration (in local affairs) by towns and counties. National, or State Government Intrastate use of Interstate agreements, to me, do not meet the definition of “Local Government” i.e. cities and counties” as defined by Webster.**

**I know that this panel was commissioned by the President of the United States to study the effects of Federal Procurement Practices on Small, Minority, and Women Owned businesses. About now, you may question what is all this about? State and local contracting was not your charge to study.**

**I have just given you one case of, agreements in one state, being used across State lines or the use of GSA Schedules that effectively denies local vendors and contractors from competing for local taxing authority opportunities. This was and continues to be a carefully contrived plan by large businesses to eliminate local competition and it works with precision.**

**But there was a hole in the plan and large corporations and their attorneys set out to defeat the Minority and Woman owned business programs that resulted from Supreme Court decisions like J.A. Crossen vs. City of Richmond.**

**From that decision and others “Availability and Disparity Studies” were conducted to determine first the availability of minorities for contracting opportunities in a locality and second the percentage of disparity between availability of minorities and dollars spent. These studies supported race based goals in local contracting.**

**Large Federal contractors with GSA Schedules empowered their attorneys to find a loophole or a plan to defeat the federally mandated economic solutions for the inclusion of Minorities and Women Owned businesses in contracting.**

**The solution was found and now the large corporations in the MRO industry are implementing the same business plans in Texas.**

**The large suppliers of maintenance, repair and operational items (hereafter referred to as Company “A”, Company “B” and Company “C”) now own their own Minority and/or Women Owned companies. They submitted their GSA Schedules Contract to the Texas “TXMAS” Administrator at the State of Texas “TXMAS Program”.**

**To Company “A”, a TXMAS Contract Number was issued based specifically on the Federal Contract from GSA or another states cooperative agreement. Company “A” was then empowered to do business in the State of Texas sanctioned by the “TXMAS Program”.**

**Company “A” and others were then ready to implement the second part of their plan of using a Federal Program or Co-op Plan to defeat Minority and or Women Owned Competition in the State of Texas. Company “A” selected a white woman owned Texas Certified “HUB” as their dealer (broker). This “HUB” company was assigned an identical contract number as Company “A” with the exception of a dash-one (-1) at the end.**

**Company “B” from Winona, Minnesota chose a company owned by a black female located in Arlington, Texas. The two “HUB” companies are called “Dealers” for Company “A” and Company “B”, respectively. Company “C”, another large MRO corporation, is reported to use an Indian owned company as its “in-house” minority. All three of the “HUB” companies received a dash-one (-1) contract for which they do virtually nothing for, except meeting the “HUB” criteria.**

**On the website owned by Company “A”, a viewer would notice it has been set up to look almost identical to the website of Company “A”. On the website, there is verbiage that says**

**“Take full advantage of this TXMAS Opportunity for HUB Compliance. Your business with “HUB” Company on this contract will qualify for 100% direct HUB dollars.”**

**In an article in “WE” Magazine, the owner of that “HUB” reported that since joining the Company “A” Program, her sales had gone from approximately 1.5 million dollars in 2002 and is now predicted to be \$22,000,000 in 2005.**

**On this \$22 million, the “HUB” vendor will receive a fee of 3 to 4% of the total amount. Over 30% in profit remains with the large corporation. Company “A” selected their “HUB” certified dealer for her “HUB” status and prior to that selection, the company did not sell or stock MRO Supplies. The company is in the Laboratory Supplies business. Company “A”s appointment of a non-stocking dealer/broker using an identical website connected to the I.T. System of Company “A” which actually receives the orders, prepares picking tickets for items located in the warehouse of Company “A” and then is prepared for and shipped by Company “A” employees and automatically invoiced using the Company “A” designed I.T. package.**

**While Company “B”, with its “HUB” dealer, instructs purchase orders be sent to the local Texas address, the remit to address is in Winono, Minnesota. I don’t think we have to be real smart to figure out who opens that lockbox and who gets the money.**

**These State Programs are the result of the Federal Initiatives we call the GSA Schedules.**

**The purpose of the schedules was to simplify government procurement and reduce cost of the goods and services necessary for the efficient operation of the Federal Government.**

**The spill over into State and Local government was not an original goal, but it happened.**

**Permitting the large corporations who have GSA Schedules to name a dealer and establish a dash-one (-1) Contract to satisfy “HUB” requirements was never the intent of the schedules or the decision of the Supreme Court in Crossen vs Richmond. It makes the large corporation a “King Maker”.**

**These dash-one (-1) Contracts legally (or maybe not so legally) allow these large corporations to eliminate competition of Small, Minority and Women owned businesses at a cost of approximately 3% to 4% going to the “HUB” Dealer. The other 34% goes to the large corporation. A charge card cost more than 3%. Since I am not privy to all of the contracts between them, the above is my best guess of their financial arrangement.**

**What I do know for certain is that one of these large corporations historically, for the past few years, has had net earnings of \$80 to \$90 million per quarter based on about \$5 Billion in annual sales. This last quarter, the same company’s net profit was over \$100 million dollars with gross margin of profit at 36.8%**

**I do not believe that it is the intent of local governments to intentionally circumvent Small, Minority and Women owned goals programs supported by Federal law.**

**The State of Texas Representatives will tell you that the dash one (-1) Contracts are good for inclusion because they help meet “HUB” goals. That is total “smoke and mirrors”. Three to four percent of revenue providing 100% credit toward “HUB” Goals is not the intent of any MBE Program in the country. What it does is, it allows a large concentration of dollars to show up as a “HUB” spend, but the large dollar amount is at a very low percentage of profit (3 to 4%) and does not mentor or teach the dash one (-1) recipient how to run a business or create a company to compete with the large corporation. As time goes by, the smaller companies fall by the wayside and less and less competition is in the marketplace to grow and compete.**

**Incidentally, the dash one (-1) supplier did not originate a schedule with the GSA, nor did they win a competitive bid for the products on either direct bid or cooperative agreement. What do they then receive money for?  
What value do they bring to the table?**

**It is my opinion, based on what I believe, that the only thing they had to sell was their certification. It becomes a “scam” or “pass through” for the benefit of**



**large corporations. If they were selling their business acumen, would they not have their own GSA Schedules or “power house” website?**

**My understanding of the activity I have described above is the result of my own investigation, initiated because of my own, very successful until now, 34 year old company, has been diminished and lost over one-half of our market share as the result. They TYPA Agreements I have described above, that are based on the GSA Schedules and subsequent buy-ins by State Government have reduced my company’s business with the City of Fort Worth by one-third per year and now our business approaches \$0.00 dollars.**

**I believe the Federal Government should restrict the use of GSA Schedules to Federal Contracting where “Brokering” is prohibited under the SBA 8(a) Program and the Code of Federal Regulations.**

**I will also submit additional documented information that I have to the U.S. Attorney’s office to determine if there are any violations of Federal Law by the method of operation of these large corporations and their dealers.**

**Thank you for listening to me today.**

**REPORT FOR:**        **Acquisition Advisory Panel  
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**SUBJECT:**            **Bundling & Mentoring**

**PRESENTED BY:**    **Richard E. Bloomfield  
President  
Ceco Sales Corporation  
708 North Main Street  
Fort Worth, Texas 76106**

# **BUNDLING & MENTORING**

**Written by Gene Bloomfield**

**Procurement mentality during the last twenty years has been that big business can do big things, small business can do small things.**

**Larger suppliers of goods and services figured out that if opportunities with Corporate America and Department of Defense contractors were bundled together, the smaller companies could not provide a competitive offer. An example would be a requirement that a supplier provide a support facility of goods and services at each location of a large corporation. A requirements contract like that dries up the local pool of opportunity but serves the larger suppliers well. They grow larger and small business has to seek alternative opportunities, which are generally smaller in scope. These opportunities become “niche” markets that remain secure for small suppliers until the “niche” grows into a larger opportunity. Once sufficiently large enough, these opportunities receive a visit from the larger suppliers and the cycle begins again.**

**These large suppliers of goods and services, once inside Corporate America and/or Department of Defense contractors begin an ongoing evaluation that converts the task of the job or products provided to that which is best suited to the capability of the large supplier. When a re-bid takes place, they are the best suited to win the contract again. Hence, one application of the term “un-level playing field”.**

**In the area of a supplier of goods, they will convert products, through a controlled test procedure, to those products where they have negotiated sole source distribution or have branded OEM products. At re-bid time, they reign supreme.**

**This cycle puts the larger supplier in a position to grow into other larger opportunities with Corporate America and Department of Defense contractors buying out competition that they can not out-position. Purchasing Managers across America have bought into these Systems Contracts because it makes their jobs easier. To manage one large supplier rather than 50 or 500 small suppliers to accomplish their task is more expedient. In the process of obtaining “ease of operation”, they have “sold out” the efforts of minority business programs designed to create inclusion of minority entrepreneurs to participate in the economic dream of this “all men were created equal” country.**

**These Purchasing Managers counter this charge by pointing out that they require these larger suppliers to develop a goals program for minority participation as 2<sup>nd</sup> tier sub-contractors. These plans do not, have not, and will not work. What large supplier wants to build back competition when they have derived such a perfect plan to eliminate it? This concept is based either on naivete or “rope-a-dope”. I think the latter.**

**Purchasing Managers have also sold out their own companies by not developing an alternative source of supply of the goods and services required by Corporate America and Department of Defense contractors. A simple journey through Zack’s online services would show gross margin of these large suppliers to approach 40%. With a general operating cost of 23%, as a foundation for comparison, these large suppliers who tout that their mark-up on products is about 20% on Systems Agreements are receiving back volume credits from their suppliers. These are not being shared with the large corporations and I doubt that they know about them. Other words for “volume credits” is “kick-backs” and “secret profits”. I would challenge anyone to provide a case where small business received a volume credit. No volume --- no credit.**

**The manufacturers or the products sold on Systems Agreements by larger suppliers are so tied to them that minority owned small suppliers never get to see**

**cost of product as low as the large suppliers. This vicious exclusionary cycle and modern form of economic discrimination must be broken. It can not be broken through dialogue with the Purchasing Manager. They do not even want to discuss it because, to them, it makes no sense. Why complicate something that works so well? Supply chain management is being done to its optimum and that's their job!**

**These people, regardless of their ethnicity, generally have no social agenda. Social problems are not part of their job description. Minority participation does not equate to the bottom line dollars that Corporate America and Department of Defense contractors require of them. Minority participation is only important when it is a measure of a Purchasing Manager's support of a top management directive that also controls the Purchasing Manager's personal income. This is to say that they will only do the right thing if it impacts their own, bottom-line take home pay.**

**No Chief Executive Officer in America, worth his or her salt, could forget that it was race riots in the street and the burning of American cities that was the birthplace of minority business programs. Poverty, caused by economic exclusion, was the driver and WATTS was the vehicle. It caught the attention of our government who then acted to legislate an answer to the problem. If Corporate America wanted to do business with the U.S. Government, they were required to establish "goals" programs for minority inclusion. City and state governments fell under the same rule.**

**Without a "buy-in" at the very top position, any minority business program becomes the medal worn by a General that did not serve in the war. It will only be treated as an embarrassment, rather than being worn with pride of achievement.**

**The CEO's must require that their directives with regard to minority business inclusion be achieved. The corporations must establish a pro-active system of mentoring, monitoring and measuring the progress towards the CEO's goals. These goals must be set sufficiently high enough to make a major impact.**

**Corporate America and especially Department of Defense contractors, cities, states and the federal government have all maintained that they just can not reach goals as high as minority population percentages. Struggle as they might, they just can not get there. They, meaning all the above, are not willing to do it. This, quite simply put, is how to reach the goals every time and would apply to all entities.**

**If it is determined that ethnic minorities equate to 38% of the population, set aside 38% of procurement dollars and allow only the minority owned businesses to compete for that piece. Conversely, let the white majority owned businesses compete with each other for the remaining 62%.**

**Reality will tell us, that is not going to happen! Some reasons are legitimate, others are not. If we do not, however, seek parity through meaningful mentoring programs, then the day will come when minorities return to the street. We saw this recently in the World Trade organization riots. Positive change will not happen until it is made to happen.**

**In the long run, Corporate America and Department of Defense contractors will reduce cost through a larger and more competitive supplier base. Corporate America and Department of Defense contractors by inclusion of the minority owned companies, will expand the consumer base. More money will be available to buy corporate products. Of course, there's the argument that if you start with 100% and divide it into 62% and 38%, how does that create more than the 100% you started with?**

**By spreading the money over a larger percent of the population, more money will be spent in the retail markets. Is this not a country that always spends more than its income? Does the gross national product not grow as the population grows?**

**By spreading opportunity over a wider range of people with the corresponding GNP growth, this permits ethnic minority business owners the opportunity to build reserve cash. This reserve cash will build power in ethnic minority communities.**

**Ethnic minorities' eventual success will eliminate the need for minority business programs such as mentoring. At some point, the playing field will become level and we can all concentrate on being the best that we can be in the operational efforts of our business.**

**So the question is – who, what, or both changes the direction?**

**I believe the “who” is the absolute top management in Corporate America, Department of Defense contractors and even the Commander and Chief.**

**The “what” is mentoring.**